Peter J. Montiel, *Macroeconomics in Emerging Markets*, Cambridge University Press, Cambridge, 2003, 445 p.

Although the title *Macroeconomics in emerging markets* seems rather straightforward at first sight, it makes one wonder whether the foundations of macroeconomics in emerging markets really differ from those in industrialised countries. Why a separate macroeconomics textbook for this category of countries? In this extremely lucidly written book, Peter Montiel easily convinces the reader that it is a useful complement to existing textbooks for at least two reasons. First, because the idiosyncrasies of many emerging economies – most notably their often weak financial and legal systems – may require a different macroeconomic management focus. While macroeconomic policies in industrialised countries often relate to business cycle developments, policy makers in emerging economies are compelled to spend much more time on irregular episodes of financial instability, which may require different types of action. Second, because some assumptions of standard theoretical models do not hold for most emerging economies. Market-determined floating exchange rates and a risk-free rate of return on short-term government debt do for instance not apply to many countries in the developing world.

The book is divided into four parts. The first one introduces a clear analytical model, to which later chapters refer when treating issues of macro-economic stabilisation. And although the author does not formally define the term "emerging market", the model developed in Chapters 2 and 3 shows that a typical emerging economy is characterised by real and financial openness (though with imperfect substitutability between domestic and foreign financial assets), an officially determined exchange rate regime, and a relatively strong reliance on monetary policies and stabilisation rather than fiscal policies (when compared to industrialised countries). Although the discussion of the model is clear, it would have benefited had the letters denoting the variables been more intuitively logical (e.g. why not use n to designate the nominal exchange rate rather than s?).

In the subsequent three parts the author gives an overview of specific areas of macroeconomic policy: fiscal management, management of the financial sector, and exchange-rate management. In general, the discussion of these themes is both comprehensive and profound. However, in my view the second part of the book, on financial sector policies, is somewhat unbalanced. The author discusses at length the literature on financial repression and financial liberalisation, but pays virtually no attention to the (more recent) so-termed legal view literature. The empirical results of this literature carry important implications for emerging economies, as they underline that the positive growth effect of financial system development mainly depends on the extent to which the financial system is rooted in an enforceable legal system. Only in Chapter 11 some oblique remarks are made with respect to the influence of the legal system on contract enforcement costs. Another omission is that, while dealing with the theoretical (dis)advantages of banks vs. financial markets, Chapter 11 does not discuss the empirical research into this matter, which basically shows that financial structure as such appears to be inconsequential for economic growth.

An important point in favour of the book is that, using the benchmark model from the first part, the author systematically shows that in emerging economies fiscal policy, financial sector issues, and exchange rate management are mutually interdependent. An interesting case in point is the very clear treatment of exchange rate management and currency crises in the last part of the book. Here, the differences between industrialised and emerging countries come clearly to the fore in a discussion of the ability of countries to perform moderate devaluations if a gap between the actual and equilibrium real exchange rate becomes apparent. While industrialised countries have been able to limit such devaluations, emerging economies have often experienced more extreme market reactions due to a lack of confidence. Paul Krugman already referred to this "double standard" of financial markets in *The Return of Depression Economics* (1999), but Peter Montiel elaborates on this theme, linking it to self-fulfilling liquidity crises and his discussion of financial sector fragility in earlier chapters.

All in all, this book provides for a readable and insightful analysis of macroeconomic management in emerging and transition economies, generally based on the state-of-the-art as regards theoretical and empirical research on this topic. Given the largely non-mathematical approach, the book may also serve well as an updated, more concise, and "light" version of Agénor and Montiel's second edition of *Development Macroeconomics* (1999). In doing so, this book also shows that clear and precise analytical writing on (macro)economics can be done without casting each and every argumentation into a mathematical mould.

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